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FENNEMORE CRAIG
Patrick J. Black (No. 017141)
3003 North Central Avenue, Suite 2600
Phoenix, Arizona 85012
Telephone: (602) 916-5000
Facsimile: (602) 916-5600
Email: pblack@fclaw.com

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AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED

NOV 13 2008

Attorneys for Valley Utilities Water Co., Inc.



BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION
OF VALLEY UTILITIES WATER
COMPANY INC. FOR AN INCREASE IN
ITS WATER RATES FOR CUSTOMERS
WITHIN MARICOPA COUNTY, ARIZONA

DOCKET NO. W-01412A-04-0736

IN THE MATTER OF THE APPLICATION
OF VALLEY UTILITIES WATER
COMPANY INC. FOR AUTHORITY TO
ISSUE PROMISSORY NOTE(S) AND
OTHER EVIDENCES OF
INDEBTEDNESS PAYABLE AT
PERIODS OF MORE THAN TWELVE
MONTHS AFTER THE DATE OF
ISSUANCE

DOCKET NO. W-01412A-04-0849

**COMPLIANCE WITH DECISION
NO. 68309**

**APPLICATION FOR APPROVAL OF
INTERIM ARSENIC REMOVAL
SURCHARGE TARIFF**

In accordance with Decision No. 68309 (November 14, 2005), Valley Utilities Water Company, Inc. ("Valley Utilities" or "Company") hereby requests that the Arizona Corporation Commission ("Commission") approve certain interim rate relief that will be effective until a decision has been issued on the Company's application for permanent rate increases, to be filed pursuant to Commission order on or before December 1, 2008. Valley Utilities further requests that a hearing be set approximately 45 days from the date of this Application for consideration of Valley Utilities' request for interim rate relief and for such other and further relief necessary to maintain the Company's financial soundness. In support of these requests, Valley Utilities states as follows:

1 1. Valley Utilities is an Arizona corporation engaged in providing water utility
2 service within unincorporated portions of Maricopa County. Valley Utilities holds a
3 Certificate of Convenience and Necessity by order of the Commission dated December
4 20, 1984. Decision No. 54274.

5 2. Valley Utilities office is located at 6808 N. Dysart Rd., Suite 112, Glendale,
6 Arizona, 85307. The number is (623) 935-1100. Robert Rpince is the President of Valley
7 Utilities, and is responsible for managing all of the operational, administrative, financial
8 and regulatory performance of Valley Utilities.

9 3. Valley Utilities has retained Mr. Thomas Bourassa, a certified public
10 accountant, to assist the Company in connection with its applications for interim and
11 permanent rate relief. Mr. Bourassa's business address is 727 W. Maryland Ave #12,
12 Phoenix, Arizona 85013. His telephone number is (602) 246-7150. **Copies of all data**
13 **requests and other requests for information relating to the application should be**
14 **provided to Mr. Bourassa with a copy to counsel undersigned.**

15 4. At present, Valley Utilities has approximately 1,393 water service
16 connections, consisting primarily of single-family homes.

17 5. On October 7, 2004, Valley Utilities filed an application with the
18 Commission for an increase in water rates for customers in Maricopa County, Arizona. In
19 addition to an increase in rates, the Company requested authority to incur long-term debt
20 in the amount of \$1,926,100, equal to the amount of a loan the Company was seeking
21 from the Water Infrastructure Financing Authority ("WIFA") to purchase and construct
22 water treatment facilities for arsenic removal ("WIFA Loan").

23 6. Commission Staff ("Staff") analyzed the requested financing and
24 determined that an annual surcharge of approximately \$185,247 would be necessary for
25 the Company to maintain its pre-loan cash flow. Decision at 7. While the proposed loan
26 would exacerbate Valley Utilities' negative equity with a debt burden, Staff nevertheless

1 concluded there were no other known options to financing the purchase and construction
2 of arsenic removal equipment required for the Company to comply with the new
3 maximum contaminant level for arsenic established by the U.S. Environmental Protection
4 Agency, and that its recommended rates were insufficient to meet additional debt service
5 obligations of the WIFA Loan. *Id.*

6 7. Based on these facts, Staff recommended, among other things, that the
7 WIFA Loan be approved with the understanding that the Commission would subsequently
8 consider an arsenic removal surcharge ("ARSM") to enable the Company to meet its
9 principal and interest obligations, and the incremental income taxes on the surcharge. *Id.*
10 The Commission approved Staff's recommendation, and established the Company's
11 current rates and charges in Decision No. 68309 (November 14, 2005).

12 8. Decision No. 68309 requires that the Company file with Docket Control "an
13 application for approval of an arsenic removal surcharge tariff if a surcharge is necessary
14 to allow Valley Utilities Water Company, Inc. to meet its principal and interest
15 obligations on the amount of the WIFA loan and income taxes on the surcharges."
16 Decision at 26.

17 9. An interim ARSM is now necessary in order for the Company to meet its
18 principal and interest obligations on the WIFA Loan authorized in Decision No. 68309,
19 totaling \$1,926,100.

20 10. The current monthly debt service on the WIFA Loan is \$16,483. *See*
21 Exhibit 1. Valley Utilities has until now refrained from filing for approval of an ARSM,
22 primarily because the Company has been able to pay the monthly debt service from funds
23 generated by the Arsenic Impact Fee ("AIF") tariff authorized in Decision No. 67669
24 (March 9, 2005).

25 11. Valley Utilities has paid a total of \$296,692 from the AIF account to service
26 the WIFA Loan debt through October 1, 2008. However, the lack of growth within the

1 Company's service area and lack of AIF collections over the past 24 months has caused
2 the AIF account balance to drop dramatically. There is currently \$34,630.94 in the AIF
3 account, which is enough to pay the monthly WIFA Loan debt service through January 1,
4 2009. See Exhibit 2.

5 12. There is currently \$73,457.72 in the Company's "set-aside" account
6 authorized in Decision No. 62908¹. See Exhibit 3. The Company is currently seeking
7 authority from the Commission in another proceeding to release and utilize the set-aside
8 funds to continue paying the monthly debt service on the WIFA Loan once the AIF
9 account is depleted. Granting the Company this authority would also reduce the amount
10 of ARSM necessary to continue paying this monthly debt service through October 2009².

11 13. If the Commission makes the set-aside funds available to the Valley Utilities
12 in order to reduce the amount of the required ARSM, as requested by the Company, then
13 Valley Utilities requests that the Commission immediately approve, on an interim basis,
14 an ARSM that produces a revenue stream of at least \$72,996.00 over a 12-month period to
15 help pay for the monthly debt service obligations on the WIFA Loan. These loan
16 proceeds have been used exclusively by Valley Utilities to construct arsenic removal and
17 treatment facilities in order provide its customers with water quality that meets federal
18 guidelines under the Safe Drinking Water Act. Under the Company's primary proposal,
19 the average customer bill of \$30.18 would increase to \$32.28, for an average percentage
20 increase of 6.96%. See Exhibit 4 (Schedule 1).

21
22 ¹ The Commission authorized financing up to \$452,080, and established a set-aside account to be used to pay the
23 monthly debt service on the loan. Although the WIFA loan was eventually approved by WIFA, the amount was for
only \$52,350. The Commission canceled the previous financing authority in conjunction with approving the new
WIFA Loan financing.

24 ² See Docket Nos. W-01412A-99-0615 and W-01412A-00-0023. During the November 3, 2008, pre-hearing
25 conference in the proceeding, the Company requested that Staff allow Valley Utilities to amend its motion to include
26 approval of an arsenic removal surcharge tariff. Staff opined its preference that the Company file for approval in a
different docket because the issue is "unrelated" to the funds currently in set-aside account.

1 14. If the Commission does not grant Valley Utilities' request to authorize the
2 use of set-aside funds to reduce the amount of ARSM necessary, then Valley Utilities
3 requests that the Commission immediately approve, on an interim basis, an ARSM that
4 produces a revenue stream of at least \$118,936.00 over a 12-month period to pay for the
5 monthly debt service obligations on its current WIFA Loan. Under this secondary
6 proposal, the average customer bill of \$30.18 would increase to \$34.39, for an average
7 percentage increase of 13.96%. See Exhibit 5 (Schedule 1A).

8 15. Valley Utilities is required to file a rate application by December 1, 2008, in
9 accordance with Decision No. 70138 (January 23, 2008). However, the Company does
10 not anticipate that a final order authorizing new rates and charges will be completed
11 before available funds, including any set-aside funds so authorized by the Commission for
12 use to pay the monthly debt service on the WIFA Loan, are exhausted. Therefore,
13 approval of an interim ARSM is necessary in order to keep the Company financially
14 solvent and able to service its outstanding WIFA Loan obligations. This Application is
15 consistent (and in compliance) with Decision No. 68309, in which the Commission
16 directed the Company to file for approval of an ARSM "if needed" to meet its principal
17 and interest obligations on the amount of the WIFA Loan granted therein, as well as
18 applicable income taxes on the surcharges.³

19 WHEREFORE, Valley Utilities respectfully requests the following relief:

20 A. That the Commission immediately issue a procedural order setting a hearing
21 in approximately 45 days to consider the Company's request for interim rate relief;

22 B. That the Commission, based upon the evidence presented, approve interim
23 adjustments to Valley Utilities rates and charges for water service in the form of an

24 ³ See also Decision No. 70561 (October 23, 2008) at 8 ["In a May 9, 2007, compliance filing for Decision No. 68309,
25 the Company indicated that no surcharge was yet necessary to allow the Company to meet its principal and interest
26 obligations on the amount of the WIFA loan and income taxes on the surcharges. The Company has not yet filed for
approval of the arsenic removal surcharge tariff as authorized by Decision No. 68309."]

1 interim ARSM, as proposed by the Company herein, or approve such other interim rates
2 and charges as will ensure the financial soundness of Valley Utilities;

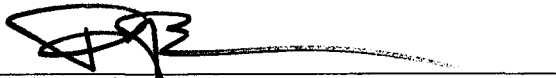
3 C. That the Commission authorize the interim ARSM until such time that
4 Valley Utilities is granted permanent rates; and

5 D. That the Commission authorize such other and further relief as may be
6 appropriate under the circumstances herein.

7 RESPECTFULLY SUBMITTED this 13th day of November, 2008.

8 FENNEMORE CRAIG, P.C.

9
10 By:


11 Patrick J. Black
12 Attorneys for Valley Utilities Water Company,
13 Inc.

14 **ORIGINAL and 13 copies** of the foregoing
15 **FILED** this 13th day of November, 2008 with:

16 Docket Control
17 ARIZONA CORPORATION COMMISSION
18 1200 West Washington Street
19 Phoenix, AZ 85007

20 **COPY** of the foregoing was
21 **HAND-DELIVERED**
22 this 13th day of November, 2008 to:

23 Janice Alward, Chief Counsel
24 Legal Division
25 ARIZONA CORPORATION COMMISSION
26 1200 West Washington Street
Phoenix, AZ 85007

Ernest Johnson, Director
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007

1 Kimberly Batista
Utilities Division
2 ARIZONA CORPORATION COMMISSION
1200 West Washington Street
3 Phoenix, AZ 85007

4 By: Gidget Kelsey-Bacon
5 Gidget Kelsey-Bacon
6 Secretary to Patrick J. Black
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EXHIBIT

1

Exhibit A of Loan Agreement

Section 1: Financial Assistance Terms and Conditions Valley Utilities Water Co 17-Oct-06

Loan Number..... 920109-07

Closing Date..... 10/19/06

Financial Assistance Terms and Conditions

Original Loan Amount as of the Closing Date..... \$ 1,926,100.00
Final Loan Amount as of Release of Retention..... \$ 1,926,100.00
Loan Term..... 20
First Fixed Monthly Payment..... 05/01/07
Final Fixed Monthly Payment..... 10/01/26

Debt Service Reserve Fund Requirements (Held by WIFA)

Total Reserve Amount..... \$ 164,828.74
Monthly Deposit..... \$ 2,747.15
Reserve Funded by (Date)..... 04/01/12

Repair and Replacement Fund Requirement (Held by Borrower)

Begin Funding on (Date)..... 05/01/12
Annual Amount..... \$ 32,965.75
Monthly Deposit..... \$ 2,747.15

Monthly Payment

Period #7 - 1st Debt Service Payment

Maximum Payment (Includes interest payable from Closing to 1st Payment)..... \$ 66,537.40
Minimum Payment..... \$ 16,482.87

WIFA will calculate the first payment due on Period #7; payment will depend on actual loan draws.

Periods #8 through #66..... \$ 16,482.87
Periods #67 through #120..... \$ 13,735.73
Periods #121 through #180..... \$ 13,735.73
Periods #181 through #240..... \$ 13,735.73

EXHIBIT

2

VALLEY UTILITIES WATER CO INC

Account Number: 000002337698837

AIF Savings

SAVINGS SUMMARY

	INSTANCES	AMOUNT
Beginning Balance		\$51,083.03
Deposits and Additions	1	30.79
Other Withdrawals, Fees & Charges	1	- 16,482.88
Ending Balance	2	\$34,630.94
Annual Percentage Yield Earned This Period		0.74%
Interest Earned This Period		\$30.79
Interest Paid Year-to-Date		\$1,195.84

Page 6 of 8



October 01, 2008 through October 31, 2008

The monthly service fee for this account was waived as an added feature of Chase Advanced Business Checking account.

TRANSACTION DETAIL

DATE	DESCRIPTION	AMOUNT	BALANCE
	Beginning Balance		\$51,083.03
10/29	Online Transfer To Chk Xxxx9782 Transaction#: 168933006	- 16,482.88	34,600.15
10/31	Interest Payment	30.79	34,630.94
	Ending Balance		\$34,630.94

You earned a higher interest rate on your Chase Business High Yield Savings account during this statement period because you had a qualifying Chase Advanced Business Checking account.

30 deposited items are provided with your account each month. There is a \$0.20 fee for each additional deposited item.

EXHIBIT

3



October 01, 2008 through October 31, 2008

Primary Account: 000002337700369

VALLEY UTILITIES WATER CO INC

Account Number: 000002337698779

SAVINGS SUMMARY

	INSTANCES	AMOUNT
Beginning Balance		\$73,411.48
Deposits and Additions	1	46.24
Ending Balance	1	\$73,457.72
Annual Percentage Yield Earned This Period		0.74%
Interest Earned This Period		\$46.24
Interest Paid Year-to-Date		\$515.62

The monthly service fee for this account was waived as an added feature of Chase Advanced Business Checking account.

TRANSACTION DETAIL

DATE	DESCRIPTION	AMOUNT	BALANCE
	Beginning Balance		\$73,411.48
10/31	Interest Payment	46.24	73,457.72
	Ending Balance		\$73,457.72

You earned a higher interest rate on your Chase Business High Yield Savings account during this statement period because you had a qualifying Chase Advanced Business Checking account.

30 deposited items are provided with your account each month. There is a \$0.20 fee for each additional deposited item.

EXHIBIT

4

Valley Utilities Water Company
Computation of Arsenic Recovery Surcharge

Exhibit
SCHED 1

Line

No.

1			
2	WIFA Debt Service Requirements (November 2008 to October 2009) ¹	\$	197,794
3	Adjustments:		
4	Under (over) collection of Arsenic Recovery Surcharge ²	(124,798)	
5	Total Adjustments	\$	(124,798)
6	Amount to be Collected via Arsenic Recovery Surcharge	\$	72,996
7	(if negative, no surcharge necessary)		
8			
9	Gallons Sold (in 1,000's) during recent 12 month period		321,572
10			
11	Surcharge per 1,000 gallons	\$	0.23
12			
13	<u>Computation of Impact on Average 5/8 Inch metered Customer</u>		
14	Average Use (in gallons)		9,251
15	Average Bill (without surcharge)	\$	30.18
16	Arsenic Recovery Surcharge at Average Use	\$	2.10
17	Average Bill (with surcharge)	\$	32.28
18	Percent Increase in Average Bill		6.96%
19			
20	¹ WIFA Debt Service Requirements (October 2008 to September 2009) (From Loan Repayment Schedule)		
21	1 November 2008	\$	16,483
22	2 December		16,483
23	3 January 2009		16,483
24	4 February		16,483
25	5 March		16,483
26	6 April		16,483
27	7 March		16,483
28	8 June		16,483
29	9 July		16,483
30	10 August		16,483
31	11 September		16,483
32	12 October 2009		16,483
33	Total	\$	<u>197,794</u>
34			
35			
36	² Arsenic Recovery Surcharge Fund Balance		
37	Surcharge Collections through October 1, 2008	\$	-
38	WIFA Debt Service Payments through October 2008	(296,692)	
39	AIF Collections ³	348,078	
40	WIFA Loan Set Asides ⁴	73,411	
41			<u>124,798</u>
42	Balance of Arsenic Recovery Surcharge Fund	\$	<u>124,798</u>
43	(negative balance indicates under collection of ARS)		
44			
45	³ Arsenic Impact Fees Collections		
46	AIF Fees Collected	\$	331,760
47	Interest Earned		16,318
48	Total	\$	<u>348,078</u>
49			
50	⁴ WIFA Loan Set Asides		
51	Loan Set Asides (Balance as of October 1, 2008)	\$	73,411
52			
53			
54			

EXHIBIT

5

Valley Utilities Water Company
Computation of Arsenic Recovery Surcharge

Exhibit
SCHED 1A

Line
No.

1			
2	WIFA Debt Service Requirements (November 2008 to October 2009) ¹	\$	197,794
3	Adjustments:		
4	Under (over) collection of Arsenic Recovery Surcharge ²	(51,387)	
5	Total Adjustments	\$	(51,387)
6	Amount to be Collected via Arsenic Recovery Surcharge	\$	146,408
7	(if negative, no surcharge necessary)		
8			
9	Gallons Sold (in 1,000's) during recent 12 month period		321,572
10			
11	Surcharge per 1,000 gallons	\$	0.46
12			
13	<u>Computation of Impact on Average 5/8 Inch metered Customer</u>		
14	Average Use (in gallons)		9,251
15	Average Bill (without surcharge)	\$	30.18
16	Arsenic Recovery Surcharge at Average Use	\$	4.21
17	Average Bill (with surcharge)	\$	34.39
18	Percent Increase in Average Bill		13.96%
19			
20	¹ WIFA Debt Service Requirements (October 2008 to September 2009) (From Loan Repayment Schedule)		
21	1 November 2008	\$	16,483
22	2 December		16,483
23	3 January 2009		16,483
24	4 February		16,483
25	5 March		16,483
26	6 April		16,483
27	7 March		16,483
28	8 June		16,483
29	9 July		16,483
30	10 August		16,483
31	11 September		16,483
32	12 October 2009		16,483
33	Total	\$	<u>197,794</u>
34			
35			
36	² Arsenic Recovery Surcharge Fund Balance		
37	Surcharge Collections through October 1, 2008	\$	-
38	WIFA Debt Service Payments through October 2008	(296,692)	
39	AIF Collections ³	348,078	
40			
41			51,387
42	Balance of Arsenic Recovery Surcharge Fund	\$	<u>51,387</u>
43	(negative balance indicates under collection of ARS)		
44			
45	³ Arsenic Impact Fees Collections		
46	AIF Fees Collected	\$	331,760
47	Interest Earned		16,318
48	Total	\$	<u>348,078</u>
49			
50			
51			
52			
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54			